

COUNCIL ON HOUSING
Public Session
Buena Vista Conference Center
New Castle, Delaware
January 16, 2008

On January 16, 2008, Roseann Harkins, Chair, called to order the Public Session of the Council on Housing at 2:10 p.m. In addition to Ms. Harkins, the following Council members were present:

Hugh Leahy
Connie Louder
Joe McDonough
Ruth Sokolowski
Vincent White
Norma Zumsteg

The following Council members were absent and excused from the meeting:

Connie McCarthy
John Walker

The following persons also attended the meeting:

Anas Ben-Addi, Housing Finance Administrator
Lynda Blythe, Administrative Specialist III, DSHA
Steve Gherke, Construction Project Manager
Marlena Gibson, Management Analyst III
Saundra Johnson, Director, DSHA
Jerry Jones, Housing Finance/Development Administrator, DSHA
Tim McLaughlin, Deputy Director, DSHA
Paula Voshell, Management Analyst III

Guests present:

Lynn Buchanan, WSFS
Edward Rowles, Caldwell-Banker
Jillian Rowles, Student-Charter School of Wilmington
Mike Skipper, WSFS
Ken Smith, Delaware Housing Coalition

APPROVAL OF MINUTES

Mr. White made motion to approve the December 12, 2007 Minutes as presented. Mr. Leahy seconded the motion and the minutes were approved unanimously.

HDF STATEMENT

Mr. Jones reviewed the HDF Statement (copy attached) with an update on item 100 (Speakman Place) stating:

- 17 of the 35 affordable housing (DSHA) units have had settlements.
- There are contracts on the remaining 18 units.
- Eight of the 36 market-rate units have been sold.
- Remainder of the market-rate units are being aggressively marketed.
- The project sales have gone better than expected.
- West End Neighborhood House and The Ingerman Group are to be commended for obtaining the necessary gap financing to get the pricing down to an affordable level.
- Council Member Walker attended the Speakman Open House in November.

Mr. Jones noted Item 114 (DEMAP) will be addressed by Ms. Johnson later in the meeting at which time Council will be asked to increase funding for that program.

Item 115 (Step-Up Program) Mr. Jones noted this program was approved in July and Council Members McDonough and Walker were on the selection committee that chose Connections, West End Neighborhood House and Gateway House for the Program funding. All three entities have signed contracts and they are actively underway with the Program to assist homeless people with rental subsidy.

Mr. Jones next noted Item 123 (Marcella's House) is a Connections project and is the last 2007 project and should be presented to Council in a month or two.

Two other items Mr. Jones spoke on that were not on the attached December report were the Ministry of Caring, which has supplied some preliminary information about a project in Wilmington for five or six homeless men. It is expected the Council will receive a funding request in a month or two. Also noted was a new request from Interfaith Housing, working in the Southbridge area, for 15 new construction townhouse units. The anticipated request will be \$240,000 and will also be presented soon.

Huling Cove, Mr. Jones stated, will be presented today for funding and will complete the 2007 preservation funding requests. It is not noted on the report since the funding source is different than the HDF's.

STATEWIDE NEEDS ASSESSMENT

Marlena Gibson next gave a presentation on the DSHA Statewide Needs Assessment report (copy attached) prepared by Mullin & Lonergan Associates, Inc. Ms. Gibson stated two documents comprise the study, the Technical Document and Executive Summary. Both documents are available upon request for those members who do not currently have a copy. The scope of the study in the Technical Document includes Housing Development Context, Housing Supply & Demand and Special Housing Topics. Ms. Gibson noted the Executive Summary was created to be an accessible

document as comprehensive as possible and to be a good advocacy and awareness tool for affordable housing. The Summary also includes 12 Main Findings as well as State and County Fact Sheets. Ms. Gibson continued by reviewing each of the Findings and Fact Sheets.

Ms. Gibson noted the Delaware housing market is providing more higher-priced units than affordable housing units. Mr. White questioned the rationale of the finding to which Ms. Gibson responded that there has been higher income development in general, especially in Kent and Sussex Counties; as well as regulatory barriers increasing the cost of housing. Mr. White asked if there was discussion regarding regulatory costs, particularly land use. Ms. Gibson replied there was no information prepared for that segment. Mr. Leahy asked if the graph of units produced represents all units produced which it does. The graph, in fact, captures all new housing produced as well as inflationary valuation of existing homes.

Mr. McDonough asked what county has the highest percentage of homeownership. Ms. Gibson responded, Sussex County, mainly due to the surge in the sale of beach area properties. Ms. Zumsteg asked about the classification of vacation homes and Ms. Gibson replied they are not classified as owner-occupied and are not included in the study.

Using a conservative mortgage affordability factor of 33%, Ms. Gibson noted the study determined many of the occupations considered “critical”, i.e. policeman, nurses, EMT’s, cannot afford the median home prices in their counties. The study also included some lower-paid occupations looking at rental affordability and concluded that a pre-school teacher cannot afford to rent anywhere in the state of Delaware. Both dual and single-incomes were included in the study and can face the same housing problems.

Ms. Gibson noted the homeowner demand forecast for 2008-2012 includes over 33,000 existing homes; 13,000 new construction and 900 manufactured homes. Ms. Sokolowski asked what the factors were in making that determination, if the price of housing and availability of supply were factors. Ms. Gibson responded both items were factors as well as trends from previous census, what happened during 2000-2005, future projections and statistics kept at DSHA from the census bureau on new construction. Mr. White asked for clarification of the 33,000 homes, if they would be resales and Ms. Gibson confirmed they are. Mr. Leahy noted total homeowner demand will be 48,000 households and that would be satisfied by the 33,000 existing homes with the remaining 15,000 to come from the 13,900 new construction and manufactured homes. Therefore, a shortage of homes will still exist. Ms. Zumsteg asked if the aging population was factored in the study. Ms. Gibson responded that household growth by age is a large factor. Ms. Zumsteg also wanted to know if some other agency would be looking at the housing opportunities for the aging population and was assured that the Division of Services for Aging and Adults with Physical Disabilities was responsible for those needs.

Mr. Leahy asked if the study predicted percentage of homeownership would remain the same. Ms. Gibson responded there would be a slight increase of approximately 1.5%. Mr. Leahy asked if there was an equally concise picture of homeownership supply versus homeownership demand. Ms. Gibson responded not in the format presented today but is available in parts 1 and 2. Ms. Gibson stated approximately 15% of the new homes constructed will need to be affordable for low-income

housing. Mr. White asked if DSHA knows the profile of its homebuyers. Ms. Johnson responded that yes, the demographics are known, i.e. households, size, single or double-parent, male, female, etc. The information is used to help determine DSHA's share of the market and is available in the Technical Document of the study.

Ms. Gibson continued with a recap of forecasted rental demand. Ms. Sokolowski asked if the assumption was made that DSHA would be successful in its preservation goals of not losing any units currently in its inventory. Ms. Gibson said they included an estimate of 5% loss of at-risk units. There are currently approximately 25,000 at-risk renter households.

Regarding the increase in foreclosures in Delaware as indicated in the study, Mr. White asked if DSHA knew the origins and types of loans involved in the foreclosures. Ms. Johnson said yes, that information is available. Contrary to what had been intimated by others to Mr. White, that the sub-prime issue was more related to low to moderate-income buyers, Ms. Johnson assured him that this was not the case where DSHA first-time homebuyers financing is concerned.

Ms. Gibson presented the planning portion of the report noting that the HUD 5-Year Consolidated Plan is being developed at this time. Mr. White asked what areas are included in the DSHA Plan and Ms. Gibson stated Kent and Sussex Counties excluding Dover. Mr. White was concerned that no new construction of affordable housing has been funded in New Castle in over eight years due to the Uniform Development Code. Mr. Jones responded that Mr. White was correct, there have been no "new construction" funded projects there; however, funding has been given for hundreds of tax credits units that have been developed (acquisition and rehabilitation) for affordable housing.

Ms. Gibson concluded her presentation by summarizing the three most important needs for 2008-2012 as revealed by the study: (1) preservation of Delaware's existing affordable housing stock, (2) housing opportunities for households with extremely low incomes; and, (3) foreclosure prevention.

Ms. Sokolowski questioned if housing for the chronically homeless was included in the second need and Ms. Gibson stated it was.

HULING COVE/ANNEX FUNDING REQUEST

Mr. Jones presented the Huling Cove/Annex funding request (copy attached) noting it is the last presentation project for fiscal year 2008 funding of the \$7.5 million received from the Bond Bill. The other projects were Capitol Green and Compton Apartments, both previously approved by Council. DSHA hopes to receive \$8 million this year and has a three-year plan to address the top ten complexes that are in distress financially, in need of rehabilitation or both.

Mr. Jones then reviewed the loan request:

- Construction financing with an HDF Preservation first mortgage in the amount of \$3,891,177 million at 0% for 18 months and a DSHA contribution of \$400,684.
- Permanent financing by an HDF Preservation first mortgage of \$1.8 million at 1% interest for 30 years.

- This would be the first time DSHA would be seated as the first mortgage holder for permanent financing for a multi-family complex without bond financing.
- Also requested is an HDF Preservation second mortgage of \$2 million at 1% for 30 years which is lower than the average deferred loan that DSHA typically funds.

Continuing with background information of the project, Mr. Jones explained:

- Phase I, built in 1977, includes 24 cottage units and a community center.
- The Annex, built in 1985, has 42 units.
- Entire property is designated for senior citizens.
- Situated on 16.71 acres in Lewes.
- DSHA manages both sites which were combined into one corporation with DSHA as the sole member.
- 40% of the units (26) are required to be rented to tenants at 30% of median income.
- Project has been running at a deficit due to HUD rent increases being insufficient to cover expenses (maintenance, capital improvements, utilities, insurance).
- Site chosen by DSHA for the Preservation program.
- One unit is at market rate with no subsidy being received for it.
- Major rehabilitation will include handicap upgrades, windows, roofing, siding, carpet, heating systems, new kitchens.
- HUD Housing Assistance Payment contracts in place until 2016 and 2018, at which time DSHA is mandated to request contract extensions to retain subsidy.

Mr. Jones explained the annual operating budget, an item not usually provided to Council, but included because of DSHA's involvement, indicated a projected annual rental income of over \$500,000, the majority of which is provided by subsidy. Mr. White asked what the market rate would be if the property were not preserved as affordable housing. It was agreed by various Council members to be in the neighborhood of \$1,200-1,500 per unit. The projected vacancy rate of 5% has been historically lower which could result in some surplus cash. The \$33,000 Reserve for Replacement will be taken from cash flow for four years and put into an escrow account for the life of the project in case of shortfalls in operating funds. Mr. White asked who would receive the management fee and Mr. Jones responded it would go to DSHA as unrestricted revenue. Ms. Sokolowski asked what would become of the surplus cash and Mr. Jones explained it will be used to write down the deferred second mortgage and will be so written into the loan documents.

The Sources of Uses of Funds for Construction was next reviewed and Mr. Jones highlighted, under Uses, that the rehabilitation plans/specifications were prepared professionally and advertised for public bid and the bid was actually less than staff anticipated. Mr. McDonough asked if the winning bidder was bonded and known to DSHA. Mr. Jones assured Council that the bidder's work was known and felt the project would be completed in about 18 months. Mr. Jones noted the relocation costs for relocating the tenants off-site will include moving expenses, security deposits, etc. and will be handled by the DSHA Management Section with DSHA receiving no administrative fees for the service. Mr. Jones stressed that, in order to keep costs down, DSHA is waiving the Loan Fee, Development Fee and Construction Interest. Mr. White asked if there were any environmental concerns with the property and Mr. Jones assured him there were not.

Regarding permanent financing, Mr. Jones highlighted the amount available for debt servicing will cover the next 30 years. Ms. Sokolowski asked about the interest rates on the bond financing being retired. Mr. Jones responded one was 11.75% and the other between 7-8%.

The projected monthly rental rates (set by HUD) for 65 units are: 24 at \$566 subsidized (Cove), 41 at \$707 subsidized (Annex) and one at \$708 non-subsidized. Mr. Jones explained the difference in rates between the Cove and Annex is due to the size of the apartment and HAP contract with HUD; the non-subsidized is in keeping with the income of the other seniors living there.

It is the staff's recommendation that the following loans be approved: HDF Preservation construction loan in the amount of \$3,891,177, HDF Permanent preservation of \$1,800,000 and another HDF Preservation permanent deferred second loan of \$2,091,177.

Mr. Jones reviewed the Conditions to Funding noting 40% of the units must be at 30% of median income; the borrower is to fund an operating reserve in the amount of \$134,184 within the first four years from operating receipts; and, surplus operating funds during the construction period may only be used to fund approved and required reserves or such other costs as approved by HUD, the Section 8 Contract Administrator and DSHA, as applicable. Ms. Sokolowski asked if utilities would be paid by the tenant and if energy efficiency improvements would be made. Mr. Jones responded that, at this time, utilities would be paid by the landlord. However, DSHA would be making application to HUD to have this changed to tenant-paid utilities at which time rental rates would be restructured. Mr. Jones also confirmed energy efficiency improvements would be made.

Ms. Harkins stated it is the intent of the Loan Review Committee to make a statement of their findings regarding requests being presented. Ms. Zumsteg, Chair of the Loan Review Committee, commented that, after discussing many of the items that came up for discussion today, it is the Committee's opinion this is one of the strongest applications received to date and the Committee heartily recommends it to the Council.

Mr. White asked that staff provide rent pricing rationale for future purposes which Mr. Jones agreed to do.

Council reviewed Resolution No. 368 (copy attached) after which Ms. Zumsteg moved for approval, Mr. White seconded the motion. The motion was unanimously passed.

Mr. Leahy questioned, with approximately 4,600 at-risk rental units at this time, if there was a plan in place to save these units. Ms. Johnson replied there is a comprehensive strategic plan, developed with DSHA's Asset Management section.

DIRECTOR'S REPORT

Ms. Johnson gave an update on SB86 regarding the revision of the statutory language for the Council on Housing. The language currently requires 2/3 of the Council to approve removal of a Member. The Governor has requested a revision that a member of the Council will be removed by the Governor and not the Council.

Ms. Johnson next presented a request to transfer from the Second Mortgage Assistance Loan program (SMAL) \$500,000 of the \$800,000 currently available to the Delaware Emergency Mortgage Assistance Program (DEMAP).

Ms. Harkins reminded Council of their request to the Governor for \$1 million in DEMAP funding for next fiscal year. Mr. Ben-Addi explained two programs exist for the funding of second mortgages: the SMAL program and Delaware Housing Partnership (DHP) both with similar conditions; however, the SMAL program charges compound interest, rather than the simple interest of DHP, and SMAL repayments are not great enough to sustain the program. A DSHA review in March 2007 determined that DHP would better serve applicants. Letters of notification were sent to lenders requesting SMAL loans that the funding would be provided by the DHP program. Existing SMAL loan repayments continued to be applied to the SMAL program thus accounting for the current balance. Mr. Ben-Addi explained the average DEMAP loan is \$13,000 with only \$10-20,000 currently available to fund the 30-35 files waiting for funding; thus, the transfer of SMAL funds to DEMAP would be of great assistance.

Motion was made by Mr. White and seconded by Ms. Zumsteg that the \$500,000 transfer of SMAL funds to DEMAP be made. The motion was passed unanimously.

OTHER BUSINESS

- Ms. Harkins asked that the Governance Committee be on the February 2008 Council agenda.
- Mr. McLaughlin advised the Village of Eastlake tribute to Weiner & Associates and Wilmington Housing Authority requested by Mr. White will be presented March 10, 2008 at 10:00 a.m. in the Governor's office on the 12th floor of the Carvel Building in Wilmington. All Council members are invited to attend.
- Ms. Harkins reminded Council that February 7, 2008 at 10:30 the Joint Finance Committee (JFC) housing hearing will be held. All members are encouraged to attend and testify.
- Ms. Harkins asked it be noted that both she and Ms. Sokolowski had made statements at the November 8, 2007 Budget Hearing which Ms. Zumsteg, Mr. McDonough and Mr. White also attended.
- Mr. White requested a copy of Ms. Gibson's PowerPoint presentation be sent to him via disc.
- The next meeting will be held Wednesday, February 13, 2008 at the Duncan Center in Dover.

ADJOURNMENT

A motion was made by Mr. McDonough to adjourn. The motion was seconded by Mr. Leahy and unanimously approved. The meeting adjourned at 4:10 p.m.

Respectfully submitted,

Lynda T. Blythe